The Commercial Bank of Kuwait Group

Public Disclosures on

Liquidity Coverage Ratio

31 December 2016

The following qualitative and quantitative public disclosures on Liquidity Coverage Ratio (LCR) are being provided in accordance with Central Bank of Kuwait (CBK) circular no. 2/BS /345/2014 dated December 23, 2014. This disclosure will enable and allow market participants to assess key pieces of information about the short-term resilience of the Bank's liquidity risk profile, and stock of high quality liquid assets to meet its liquidity needs for a 30 days liquidity stress scenario.

The LCR is a global minimum standard for bank liquidity. It aims to ensure that a bank has an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

The LCR is calculated by dividing the amount of unencumbered HQLA by the estimated net outflows over a stressed 30 calendar day period. The net cash outflows are calculated by applying CBK prescribed outflow factors to the various categories of liabilities (deposits, unsecured and secured wholesale borrowings), as well as to undrawn commitments and derivative-related exposures, partially offset by inflows (after application of inflow factors) from assets maturing within 30 days.

The Bank's average LCR is at 155% and 168% for the quarter and year ended 31 December 2016 respectively. The average HQLA amounted to KD 389,854 thousand and KD 381,878 thousand for the quarter and year ended 31 December 2016 respectively. The average cash inflows amounted to KD 941,633 thousand and KD 915,532 thousand for the quarter and year ended 31 December 2016 respectively. The average cash outflows amounted to KD 1,004,656 thousand and KD 908,879 thousand for the quarter and year ended 31 December 2016 respectively.

A strong and diversified liabilities profile has been at the helm on Bank's growth strategy. The Bank has consistently maintained a robust funding profile with a significant portion of funding coming through deposits. The bank periodically identifies significant counterparties and products as those that exceed 1% of the liabilities and does an internal scoring based on various factors that impact the liquidity of these funding sources in a scale of 1 to 4 with 1 indicating very low sensitive funding source and 4 indicating very high sensitive funding source. The bank has internal limits for overall liabilities from significant counterparties as well as products and also for high sensitive and very high sensitive funding sources separately. The bank also has internal limits for liquidity gaps, LCR and other liquidity based limits that are more conservative than the regulatory limits.

The liquidity exposures of the bank have been comfortable and the bank expects the same going forward given the liquidity profile of the bank. The bank does not foresee any legal or regulatory constraints that may limit the bank's ability to dispose of liquid assets.

The bank has a liquidity risk management policy in place approved by the Board of Directors. The bank has an internal governance system wherein Asset Liability Committee (ALCO) oversees the liquidity management function. Roles of different divisions with respect to liquidity risk management are clearly specified in the bank's liquidity risk management policy.

The bank has specific internal limits in place to ensure that the funding sources of the banks are diversified. These includes limits on deposits taken from government sources, deposits taken from significant counterparties, deposits taken from high risk and very high risk significant counterparties, deposits sourced through significant products / instruments, deposits sourced through high risk and very high risk significant products/instruments etc.

The bank has sufficient funding lines with various counterparties which are periodically reviewed. The bank also ensures that it maintains sufficient capital by computing internal capital for liquidity risk.

البنك التجاري الكويتي
Commercial Bank of Kuwait

The bank conducts liquidity stress tests on a half yearly basis and the results are extensively discussed in the ALCO. The liquidity stress test, tests the liquidity situation of the bank under mild, moderate and severe scenarios and also calculate the cost involved in ensuring that the bank adheres to the regulatory liquidity limits in such stress situations. The liquidity stress test results are used in the enterprise wide stress test for assessing the stressed Capital Adequacy Ratio.

The bank has a liquidity contingency plan approved by the Board of Directors. A significant feature of the same is an internally developed Early Warnings Indicator of a liquidity crisis that consider all possible factors leading to a liquidity crisis, which is used to monitor the liquidity situation on a weekly basis.

Table (6): LCR disclosure form during the quarter ended 31 December 2016 (*)

Sr	Item	Value before implementing the Flow Rate (average) (**) KD 000's	Value after implementing the Flow Rate (1) (average) (**) KD 000's
High Quality Liquid Assets (HQLA):			
1	**Total HQLA (before adjustments)**		389,854
Cash Outflows:			
2	Retail Deposits and Small Businesses	1,025,133	133,771
3	* Stable Deposits	0	0
4	* Less Stable Deposits	1,025,133	133,771
5	Unsecured_wholesale_deposits_and_funding_with_the_exception_of_the_small_business_customer_deposits	870,218	527,203
6	* Operational Deposits	0	0
7	* Non-Operational Deposits (Other unsecured liabilities)	870,218	527,203
8	Secured Funding		0
9	Other Cash Outflows including:	335,851	240,021
10	* Resulted from Derivatives	216,445	216,445
11	* Resulted from securities and commercial papers backed by assets (assuming inability to re-finance)	0	0
12	* Credit lines and committed liquidity	119,406	23,576
13	Other future contingent funding liabilities	2,031,291	101,565
14	Other contractual cash outflows	2,095	2,095
15	Total Cash Outflows		1,004,656
Cash Inflows:			
16	Secured Lending Transactions	0	0
17	Cash Inflows resulted from performing loans	855,023	724,038
18	Other cash inflows	217,595	217,595
19	**Total Cash inflows**	1,072,618	941,633
	LCR		**Value after Amendments (2)**
20	Total of HQLA (after adjustments)		389,854
21	Net Cash Outflows		251,164
22	LCR %		155%

* Quarterly Statement.

** Simple Average for all days during the quarter ended 31 December 2016.

1 Is the value after applying the HQLA haircuts and Cash Outflows and Inflows.

2 Is the value after applying the HQLA haircuts and Cash Inflows and Outflows, and calculation of the maximum limits of Level 2 Assets and cash inflows.

Table (6): LCR disclosure form during the year ended 31 December 2016 (*)

Sr	Item	Value before implementing the Flow Rate (average) (**) KD 000's	Value after implementing the Flow Rate (1) (average) (**) KD 000's
High Quality Liquid Assets (HQLA):			
1	**Total HQLA (before adjustments)**		381,878
Cash Outflows:			
2	Retail Deposits and Small Businesses	1,042,997	136,974
3	* Stable Deposits	11,554	578
4	* Less Stable Deposits	1,031,442	136,396
5	Unsecured_wholesale_deposits_and_funding_with_the_exception_of_the_small_business_customer_deposits	804,776	463,825
6	* Operational Deposits	0	0
7	* Non-Operational Deposits (Other unsecured liabilities)	804,776	463,825
8	Secured Funding		0
9	Other Cash Outflows including:	317,204	208,233
10	* Resulted from Derivatives	185,069	185,069
11	* Resulted from securities and commercial papers backed by assets (assuming inability to re-finance)	0	0
12	* Credit lines and committed liquidity	132,135	23,164
13	Other future contingent funding liabilities	1,953,475	97,674
14	Other contractual cash outflows	2,173	2,173
15	Total Cash Outflows		908,879
Cash Inflows:			
16	Secured Lending Transactions	0	0
17	Cash Inflows resulted from performing loans	839,615	730,650
18	Other cash inflows	184,882	184,882
19	**Total Cash inflows**	1,024,497	915,532
	LCR		**Value after Amendments (2)**
20	Total of HQLA (after adjustments)		381,878
21	Net Cash Outflows		227,220
22	LCR		168%

* Yearly Statement.

** Simple Average for all days during the year ended 31 December 2016.

1 Is the value after applying the HQLA haircuts and Cash Outflows and Inflows.

2 Is the value after applying the HQLA haircuts and Cash Inflows and Outflows, and calculation of the maximum limits of Level 2 Assets and cash inflows.

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